

Exhibit 2

Freddie Mac Guidelines



Welcome to the Snapshot of the Single-Family Seller/Servicer Guide as Published 12/18/12

This is a snapshot of Freddie Mac Single-Family Seller/Servicer Guide ("Guide") requirements as of December 18, 2012, the date of the last Guide Bulletin published in 2012. This comprehensive file contains all of the Guide chapters, forms, exhibits, directories and the Glossary as they were published on December 18, 2012.

Current and Future Versions, Different Effective Dates

The Guide files below represent a "snapshot" of the Guide as of December 18, 2012. Certain chapters, sections, forms, exhibits, directories or the Glossary (each a "provision") may have had effective dates that were effective after the date of the last Guide Bulletin published for the year. If both current and future effective versions of a provision had been published on December 18, 2012, all of those versions are included in the file.

Legal Disclaimer – Not an Official Guide Version

The Guide is amended from time to time throughout the year, and these snapshots must be read in conjunction with all applicable Guide Bulletins. Freddie Mac provides these snapshots as a convenience to our Seller/Servicers; they are not official versions of the Guide. The Seller/Servicer is responsible for compliance with the official Guide and Guide Bulletins containing specific Guide changes with corresponding effective dates, as posted on the AllRegs® web site of Mortgage Resource Center, Inc. (MRC).

Official Electronic Version of the Guide

The official electronic version of the Guide is available free of charge through the "AllRegs" link on the following web page: <http://www.freddiemac.com/sell/guide/>.

Chapter 1: Introduction

1.1: Overview (07/20/12)

The *Single-Family Seller/Servicer Guide* ("Guide") consists of two volumes containing Freddie Mac's requirements for Mortgages secured by 1- to 4-unit properties. Volume 1 sets forth the requirements and obligations relating to the purchase and sale of Mortgages and Volume 2 sets forth the Seller's responsibilities and obligations with respect to the Servicing of Mortgages.

Section 1.4(c) below describes the use of capitalized terms in the Guide to ascribe meanings and definitions to such terms.

1.2: Legal effect of the *Single-Family Seller/Servicer Guide* (07/20/12)

(a) Status as a contract

1. **Effect of the Guide.** The *Single-Family Seller/Servicer Guide* ("Guide") governs the business relationship between a Seller and Freddie Mac relating to the sale and Servicing of Mortgages. Each Seller/Servicer must complete and submit a Form 16SF, Annual Eligibility Certification Report, that certifies that the Seller/Servicer has access to the Electronic version of the Guide as an Electronic Record, as those terms are defined in Chapter 3, and is in compliance with all requirements of the Purchase Documents.
2. **Volume 1 of the Guide.** In connection with the sale of Mortgages to Freddie Mac, the Seller agrees that each transaction is governed by the Guide, the applicable Purchase Contract and all other Purchase Documents.
3. **Volume 2 of the Guide.** A Seller must service all Mortgages that the Seller has sold to Freddie Mac and/or has agreed to service for Freddie Mac in accordance with the standards set forth in the Seller's Purchase Documents. All of a Seller's obligations to service Mortgages for Freddie Mac are considered to constitute, and must be performed pursuant to a unitary, indivisible master Servicing contract, and the Servicing obligations assumed pursuant to any contract to sell Mortgages to Freddie Mac are deemed to be merged into, and must be performed pursuant to, such unitary, indivisible master Servicing contract.

A Seller acknowledges that Freddie Mac's agreement to purchase Mortgages from the Seller pursuant to any individual Purchase Contract is based upon the Seller's agreement that the Mortgages purchased will be serviced by the Seller pursuant to the unitary, indivisible master Servicing contract. The Seller agrees that any failure to service any Mortgage in accordance with the terms of the

unitary, indivisible master Servicing contract, or any breach of any of the Seller's obligations under any aspect of the unitary, indivisible master Servicing contract, shall be deemed to constitute a breach of the entire contract and shall entitle Freddie Mac to terminate all or a portion of the Servicing. The termination of a portion of the Servicing shall not alter the unitary, indivisible nature of the Servicing contract.

If a Servicer who services Mortgages for Freddie Mac is not also the Seller of the Mortgages to Freddie Mac, the Servicer must agree to service Mortgages for Freddie Mac by separate agreement, which incorporates the applicable Purchase Documents. In such case, the separate agreement shall be deemed to be one of the "Purchase Documents" that constitute the unitary, indivisible master Servicing contract.

In addition, in certain cases, a Seller and/or Servicer who uses certain Freddie Mac services will, by virtue of the provisions of the Guide, be deemed to have agreed upon certain terms and conditions related to such services and their use.

4. **Amendments to the Guide.** Freddie Mac may, in its sole discretion, amend or supplement the Guide from time to time. Amendments to the Guide may be a paper Record or an Electronic Record, as those terms are defined in Chapter 3. The Guide may not be amended orally. Freddie Mac may amend the Guide by:
 - Publishing Bulletins, which apply to all Sellers/Servicers, or
 - Entering into a Purchase Contract or other written or Electronic agreement, which applies to the Seller that is a party to the Purchase Contract or agreement

Bulletins expressly amend, supplement, revise or terminate specific provisions of the Guide. An amendment, supplement, revision or termination of a provision in Volume 1 or Volume 2 of the Guide is effective as of the date specified by Freddie Mac in the applicable Bulletin.

A Purchase Contract or other written agreement or Electronic agreement amends or supplements specific provisions of the Guide for purposes of such Purchase Contract or other agreement, as applicable. Such amendments or supplements to the Guide are effective as of the date specified in the Purchase Contract or other agreement. See Section 12.3(d) for information about how amendments and supplements to Volume 1 of the Guide amend or otherwise apply to a Seller's Purchase Contracts and other Purchase Documents.

5. **Publication of Guide and Bulletins.** The Guide is posted on the AllRegs® web site of Mortgage Resource Center, Inc. (MRC) which posts the Guide under license from and with the express permission of Freddie Mac. MRC is the exclusive third-party electronic publisher of the Guide. Freddie Mac makes no representation or warranty regarding availability, features or functionality of the AllRegs web site. The Guide is also posted on FreddieMac.com.

By using the web site, Seller/Serviceirs acknowledge and agree (individually and on behalf of the entity for which they access the Guide) neither Freddie Mac nor MRC shall be liable to them (or the entity for which they access the Guide) for any losses or damages whatsoever resulting directly or indirectly from Freddie Mac's designation of the Guide as found on the AllRegs web site as the official Electronic version, as an Electronic Record, and MRC expressly disclaims any warranty as to the results to be obtained by Seller/Serviceirs (and the entity for which Seller/Serviceirs access the Guide) from use of the AllRegs web site, and MRC shall not be liable to Seller/Serviceirs (and the entity for which Seller/Serviceirs access the Guide) for any damages arising directly or indirectly out of the use of the AllRegs web site by them (and the entity for which they access the Guide).

From time to time, Bulletins are published on AllRegs and FreddieMac.com. Sellers and Serviceirs with an AllRegs subscription may receive notice of Bulletins directly from AllRegs. If a Seller or Serviceir does not receive notice of Bulletins through AllRegs, the Seller or Serviceir must take the steps necessary to receive the applicable Freddie Mac Single-Family Update e-mails, which will notify Sellers and Serviceirs of Bulletin publications. A Seller or Serviceir's failure to take the appropriate steps to receive notices of Bulletins does not relieve the Seller or Serviceir of its legal obligations to comply with the terms of the Bulletins.

6. **Effective Date.** The effective date of each section of the Guide is located at the beginning of each section, to the right of the section number and name.

(b) Copyright

The Guide (including related supplements, bulletins and industry letters) is copyrighted. Limited permission to photocopy the Guide is granted to Seller/Serviceirs strictly for their own use in originating and selling Mortgages to, and in Servicing Mortgages for, Freddie Mac. No part of the Guide may be reproduced for any other reason (in any form or by any means) without the express written permission of Freddie Mac. Requests for such permission to reproduce the Guide must be sent to Freddie Mac (**see Directory 1**).

Requests will be reviewed and answered by Freddie Mac in the ordinary course of business.

Freddie Mac reserves the right to revoke permission to reproduce the Guide upon 60 days' notice to any and all Sellers and Serviceirs. Under no circumstances will Freddie Mac permit the Guide to be reproduced by any Electronic or mechanical means, including, but not limited to, reproduction in, or as a component of, any information storage and retrieval system.

(c) Reliance

By entering into a Purchase Contract or into the unitary, indivisible master Servicing contract with Freddie Mac, the Seller or Servicer acknowledges that it is not relying upon Freddie Mac or any employee, agent or representative thereof, in making its decision to enter into the contract and that it has relied upon the advice and counsel of its own employees, agents and representatives as to the regulatory, business, corporate, tax, accounting and other consequences of entering into and performing its obligations under a Purchase Contract or the unitary, indivisible master Servicing contract.

(d) Assignments; security interests

A Seller or Servicer shall not, in whole or in part, assign or transfer or grant a security interest in, any of its obligations, rights or interest under any Purchase Contract or under the unitary, indivisible master Servicing contract, including any of its rights or obligations under this Guide or any of the Purchase Documents, without Freddie Mac's prior written consent. Any purported or attempted assignment or transfer of, or grant of a security interest in, any such obligations, rights or interest is prohibited and shall be null and void.

Notwithstanding the provisions of the immediately preceding paragraph, Freddie Mac may consent to a Servicer's grant to one or more third parties of a security interest under the Uniform Commercial Code in the conditional, nondelegable contract right of the Servicer to service Home Mortgages for Freddie Mac pursuant to the terms of the unitary, indivisible master Servicing contract ("Freddie Mac Servicing rights"). Freddie Mac will indicate its consent only by executing an Acknowledgment Agreement, which must also be executed by a Servicer and the third party to whom the Servicer grants a security interest. A Servicer may write to Freddie Mac (**see Directory 1**) for a copy of the Acknowledgment Agreement and instructions for completing and executing it.

A Servicer's grant to a third party of a security interest in the Servicer's Freddie Mac Servicing rights, as more specifically defined in the Acknowledgment Agreement, may be made only for a purpose specified in the instructions for the Acknowledgment Agreement. Any purported or attempted grant of a security interest in any other rights or interest of the Servicer under the Guide or any of the Purchase Documents, or for the purpose of securing any other type of obligation, is prohibited and shall be null and void. In addition, a Servicer's purported or attempted grant to a third party of a security interest in the Servicer's Freddie Mac Servicing rights without the Servicer and the third party also having executed the Acknowledgment Agreement is prohibited and shall be null and void.

Freddie Mac has the right to sell, assign, convey, hypothecate, pledge or in any way transfer, in whole or in part, its interest under the Purchase Documents with respect to any Mortgage it purchases.

(e) Severability

If any provision of this Guide shall be held invalid, the legality and enforceability of all remaining provisions shall not in any way be affected or impaired thereby, and this Guide shall be interpreted as if such invalid provision were not contained herein.

(f) Construction of Guide

This Guide shall not be construed against Freddie Mac as being the drafter hereof.

(g) Entire agreement

This Guide, including the exhibits attached to the Guide and all Purchase Documents incorporated by reference in the Guide, constitutes the entire understanding between Freddie Mac and the Seller or Servicer and supersedes all other agreements, covenants, representations, warranties, understandings and communications between the parties, whether oral or written or Electronic, with respect to the transactions contemplated by the Guide.

(h) Governing law

This Guide shall be construed, and the rights and obligations of Freddie Mac and the Seller or Servicer hereunder determined, in accordance with the laws of the United States. Insofar as there may be no applicable precedent, and insofar as to do so would not frustrate any provision of this Guide or the transactions governed thereby, the laws of the State of New York shall be deemed reflective of the laws of the United States.

1.3: Acknowledgment and consent to electronic transactions (05/15/12)

The contents of this section have been moved and revised. The terms and conditions applicable to conducting Electronic Transactions have been moved to Chapter 3. Any references to Section 1.3 set forth in the Guide or other Purchase Documents, the Freddie Mac Selling System, Freddie Mac Service Loans application, Loan Prospector[®], Freddie Mac forms, agreements, documents, screens, exhibits, custodial agreements, or eCustodial Agreements are deemed to be references to applicable sections of Chapter 3.

Chapter 58: Property Insurance

58.1: General property insurance requirements (10/06/06)

For as long as Freddie Mac owns an interest in a Mortgage, the Seller/Servicer must ensure that the Mortgaged Premises are covered by insurance meeting the requirements in this and subsequent sections.

(a) Licensing of insurer

All insurance companies (insurers) and insurance companies which guarantee coverages provided by other insurance companies (reinsurers) must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the Mortgaged Premises are located.

(b) Assessments

Insurance contracts must provide that no assessment may be made against the Seller/Servicer or Freddie Mac and that any assessment made against others may not become a lien on the Mortgaged Premises superior to the lien of the Freddie Mac Mortgage.

(c) Rating of insurer

The required insurance must be provided by one of the following insurers:

1. An insurer whose current rating meets the requirements below:
 - For an insurer rated by A. M. Best Company (A.M. Best), a minimum Financial Strength Rating of B/III, or for a non-U.S. insurer, A/VIII, as reported online at <http://www.ambest.com>
 - For an insurer rated by Demotech, Inc., a minimum Financial Strength Rating of A as reported online at <http://www.demotech.com>
 - For an insurer rated by Standard & Poor's, a division of The McGraw-Hill Companies ("Standard & Poor's"), a minimum Financial Strength Rating of BBB as reported online at <http://www.standardandpoors.com>
2. An insurer whose coverage is guaranteed by a reinsurer under all of the following conditions:
 - The reinsurer's current rating meets the requirements below:
 - For a reinsurer rated by A.M. Best, a minimum Financial Strength Rating of B/III, or for a non-U.S. reinsurer, A/VIII; or

- For a reinsurer rated by Standard & Poor's, a minimum Financial Strength Rating of BBB
 - The reinsurer assumes by endorsement 100 percent of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency.
 - The reinsurer assumes by endorsement to give the policyholder, the Seller/Service and insurer 90-day written notice before canceling or otherwise terminating the guarantee.
 - The above endorsements are attached to each property insurance policy accepted by the Seller/Service on account of the endorsements.
- 3. A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
- 4. A nonadmitted insurer whose current rating meets the requirements below:
 - For an insurer rated by A. M. Best, a minimum Financial Strength Rating of A, or
 - For an insurer rated by Standard & Poor's, a minimum Financial Strength Rating of AA-
- 5. An insurer whose coverage is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended

Insurers rated by more than one rating company need only meet one of the rating requirements.

58.2: Minimum property insurance types and amounts (10/06/06)

(a) 1- to 4-unit properties

At a minimum, the insurable improvements on the Mortgaged Premises must be insured for loss or damage from fire, lightning and other perils (windstorm, hail, explosion, riot, civil commotion, damage by aircraft, damage by vehicles and damage by smoke) covered within the scope of standard extended coverage. If any of the preceding perils (e.g., windstorm) is excluded from the primary insurance policy, coverage of the excluded peril must be picked up through a secondary insurance

policy such as may be written by a state insurance pool under Section 58.1(c)(number 3). The insurance limits must at least equal the higher of:

- The unpaid principal balance of the Mortgage*
- 80 percent of the full replacement cost of the insurable improvements

* If the Mortgage is a Second Mortgage or Home Improvement Loan (HIL), the unpaid principal balance of the Mortgage for insurance calculation purposes is the aggregate unpaid principal balance of the Second Mortgage/HIL and all outstanding superior liens on the Mortgaged Premises.

The coverage required in accordance with the above formula must not exceed the replacement cost of the insurable improvements, even when the unpaid principal balance of the Mortgage exceeds such replacement cost.

The Seller/Servicer must ensure that adequate insurance coverage is in force even when the improvements are vacant or unoccupied and must notify all insurers of any such change in occupancy in order to preserve its rights as mortgagee under the applicable insurance policy.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "dwelling" in the insurance policy) may not exceed 5 percent of the limit maintained for dwelling coverage.

(b) PUDs; ground lease communities

Requirements for 1- to 4-unit properties apply to similar residential properties within a Planned Unit Development (PUD) or a ground lease community.

If the individual units are covered by insurance purchased by their respective owners or leasehold lessees, the PUD homeowners association or the fee simple landowner/lessor of the ground lease community must insure common areas and property for 100 percent of their replacement cost under a commercial package policy which covers, at a minimum, loss from causes identified in the Insurance Services Office's (ISO's) *Commercial Property Causes of Loss — Special Form* endorsement. The policy must provide for loss or damage settlement at replacement cost. The association or fee simple landowner/lessor must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:

- Agreed Amount, Agreed Value, Replacement Guarantee or Extended Replacement
- Inflation Guard
- Ordinance or Law

- Mechanical Breakdown and Equipment Failure with an Ordinance or Law endorsement

The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:

- 100 percent of the replacement cost of the building housing the property which is susceptible to mechanical breakdown or equipment failure, or
- \$2 million

If a higher limit is required by private mortgage investors for PUDs similar in construction, location and use, the PUD homeowners association must maintain the higher insurance limit.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5 percent of the limit maintained for building coverage.

Freddie Mac will also accept blanket insurance covering all units in the PUD or ground lease community as well as insurable common areas and property, if called for in the PUD's governing documents or in the lease. Such coverage must meet the requirements applicable to each PUD or ground lease community unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage under the terms and conditions stipulated above.

The insurance policy of the PUD homeowners association or fee simple landowner/lessor of the ground lease community must name the insured in substantially the same language indicated below:

For PUDs: Association of Owners of the [Name of PUD] Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

For ground lease communities: [Name of the lessor] of the [Name of the ground lease community] for the use and benefit of the individual lessees (designated by name, if required by law or by the lease).

(c) Condominiums

The condominium owners association must insure common elements and property for 100 percent of their replacement cost under a *Condominium Association Coverage Form* of the ISO or equivalent commercial package policy which covers, at a minimum, loss from causes identified in the ISO's *Commercial Property Causes of Loss — Special Form* endorsement.

Common elements and property that must be insured under the condominium owners association's policy include the following:

- Building and structures in the Condominium Project
- Fixtures, machinery, equipment and supplies maintained for the service of the Condominium Project
- Fixtures, improvements, alterations and equipment within the individual Condominium Units, regardless of ownership, unless the Condominium Unit owners are required by the governing documents to insure these items

The insurance coverage must provide for loss or damage settlement at replacement cost.

The additional coverages required of PUD homeowners associations are also required of condominium owners associations where applicable and available.

The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5 percent of the limit maintained for building coverage.

The insurance policy of the condominium owners association must name the insured in substantially the same language indicated below:

Association of Owners of the [Name of Condominium Project] Condominium for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

If the Mortgaged Premises are in a Detached Condominium Project and the condominium governing documents so permit, Freddie Mac will accept insurance for the Mortgaged Premises that meets the requirements of Sections 58.2 through 58.8 applicable to 1- to 4-unit properties. The condominium unit owners association must maintain all other applicable insurance coverages required in Sections 58.2 through 58.8.

58.3: Flood insurance (12/01/12)

A flood zone determination (FZD) must be made for each property securing a Mortgage sold to Freddie Mac.

A FZD must be documented by a completed FEMA Standard Flood Hazard Determination, FEMA Form 81-93 (Exhibit 13, Standard Flood Hazard Determination Form [SFHDF]) in accordance with federal law. The SFHDF may be used in a printed, computerized or electronic manner and must be retained for the life of the Mortgage in either hard copy or electronic format. Any alternative electronic format must contain all mandatory fields indicated on the SFHDF.

The date in the "Date of Determination" field on the SFHDF must be a date that is no more than 120 days before the Note Date of the Mortgage, or, if applicable, the Note Date of the refinance Mortgage.

The loan number or other identifying information in the "Loan Identifier" field on the SFHDF must be the loan number or other identifying information for the Mortgage or, if applicable, the refinance Mortgage.

The Seller/Servicer warrants that any FZD made by a party other than the Seller/Servicer is guaranteed by the FZD maker to be accurate, in accordance with federal law. The Seller/Servicer, however, remains responsible to Freddie Mac for the accuracy of any FZD made by the Seller/Servicer or any party other than the Seller/Servicer.

If the SFHDF identifies the insurable improvements on the Mortgaged Premises as located in an area that has been identified as a SFHA designated as Zone "A" or "V" on a flood map (Flood Hazard Boundary Map or Flood Insurance Rate Map) of FEMA, the Seller/Servicer must ensure that flood insurance is obtained and maintained on such improvements for the term of the Mortgage. The flood insurance policy may be issued by any insurer qualified under Section 58.1, and the terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the National Flood Insurance Program (NFIP) for the type of improvements insured.

The Seller/Servicer may waive the flood insurance requirement if:

- The Borrower and the Seller/Servicer have obtained, following a joint request to FEMA as provided under federal law, a Letter of Determination Review (LODR) concluding that the insurable improvements are not in the SFHA, or
- The Borrower has provided the Seller/Servicer with a Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire property from the SFHA, or
- The Borrower has provided the Seller/Servicer with a Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation

The Borrower must maintain flood insurance on the insurable improvements until FEMA issues a LOMA, LOMR or LODR. Upon issuance of a LOMA, LOMR or LODR, the Borrower may request from FEMA a refund of paid flood insurance premiums through the insurance agent servicing the flood insurance policy. A copy of the LOMA, LOMR or LODR, as applicable, must be maintained in the Mortgage file in accordance with Chapters 46, 47 and 52.

If the insurable improvements on the Mortgaged Premises are located in an SFHA but the community does not participate in the NFIP ("nonparticipating community"), the Mortgage is not eligible for sale to Freddie Mac.

If the insurable improvements on the Mortgaged Premises are located in an area that has not been mapped by FEMA and the Seller/Servicer is not aware of any flood risks to which the improvements are exposed, the Mortgage is eligible for sale to Freddie Mac without the benefit of flood insurance. If the area has not been mapped by FEMA but the Seller/Servicer is aware that the insurable improvements are exposed to flood risks, the Mortgage is not eligible for sale to Freddie Mac without flood insurance on the improvements.

(a) 1- to 4-unit properties

If the community where the Mortgaged Premises are located participates in the Emergency Program of the NFIP, the flood insurance coverage on the insurable improvements must at least equal the lowest of the following:

- The unpaid principal balance of the Mortgage
- The maximum amount of coverage currently sold under the Emergency Program of the NFIP for the type of improvements insured
- The replacement cost of the insurable improvements

The Seller/Servicer must ensure that the Borrower increases flood insurance coverage on the insurable improvements when the community moves into the Regular Program of the NFIP as described below.

If the community where the Mortgaged Premises are located participates in the Regular Program of the NFIP, the flood insurance coverage on the insurable improvements must at least equal the lowest of the following:

- The unpaid principal balance of the Mortgage
- The maximum amount of coverage currently sold under the Regular Program of the NFIP for the type of improvements insured
- The replacement cost of the insurable improvements

The deductible may not exceed the maximum deductible amount currently allowed under the NFIP for the type of improvements insured.

(b) PUD or ground lease community units

Flood insurance requirements for 1- to 4-unit properties apply to similar residential properties within a PUD or ground lease community.

(c) Condominium Units

Flood insurance requirements for 1- to 4-unit properties apply to similar residential properties in a Detached Condominium Project.

If the Condominium Unit securing a Mortgage sold to or serviced for Freddie Mac is in a building in a Condominium Project other than a Detached Condominium Project and all or part of the building is in an SFHA, the following flood insurance coverage, as applicable, is required:

1. Condominium owners association's coverage

The condominium owners association must maintain building coverage on the building for the lower of (i) the building's replacement cost or (ii) \$250,000 multiplied by the number of residential units in the building.

The condominium owners association must maintain contents coverage on the building for the lower of (i) the actual cash value of the contents in the building that are owned in common by the association members or (ii) the maximum amount of contents coverage sold by the NFIP for a condominium building.

The deductible of the condominium owners association's coverage may not exceed the maximum deductible amount currently allowed under the NFIP for condominium association building coverage. The deductible for association building contents may not exceed the maximum deductible amount currently allowed under the NFIP for association building contents.

2. Unit owner's coverage

To the extent the condominium owners association's building coverage does not meet the requirements above, the Borrower must maintain supplemental coverage on the unit in an amount at least equal to the difference between the condominium associations' building coverage allocated to that unit and the amount required on a 1- to 4-unit property and with a deductible not exceeding the maximum deductible allowed for a 1- to 4-unit property.

If the condominium owners associations' building coverage is not at least equal to the lower of 80% of the building's replacement cost or \$250,000 multiplied by the number of units in the building, the Mortgage is not eligible for sale to Freddie Mac, with the exception of Freddie Mac Relief Refinance MortgagesSM – Same Servicer or Freddie Mac Relief Refinance Mortgages – Open Access, which remain eligible for sale to Freddie Mac with supplemental coverage if applicable.

58.3.1: Earthquake insurance (05/25/11)

Until the California Insurance Commissioner approves the methodology utilized by Risk Management Solutions, Inc., the provisions outlined in Sections 58.3.1(a) through 58.3.1(i) are applicable only to the reduction or waiver of the 1 percent delivery fee required in Section 42.12 for California Condominium Unit Mortgages.

(a) Impacted California Condominium Projects

The insurance requirements set forth in this section apply to any Condominium Unit Mortgage with a Note dated on or after July 1, 1995, if the Condominium Unit is in a Condominium Project, any part of which is located in one or more California "high-risk" zip codes.

In addition, the earthquake insurance requirements of this section may apply to a Condominium Unit Mortgage with a Note dated on or after July 1, 1995, if the Condominium Unit is in a Condominium Project, any part of which is located in one or more California "moderate-risk" zip codes. A Condominium Project in a moderate-risk zip code must have earthquake insurance coverage if required by applying an Earthquake Insurance Requirements Matrix prepared by Risk Management Solutions (RMS). Characteristics of this matrix include: year built, construction class (wood, concrete, steel, reinforced masonry or unreinforced masonry), number of stories and type of parking (tuck-under or multilevel above-grade).

A Seller can call (800) FREDDIE and provide the property zip code and building characteristics to the Freddie Mac representative. The Seller will be provided an answer regarding the Condominium Project's earthquake insurance requirement. A written confirmation will be mailed to the Seller after the telephone call.

Current or future zip code classifications may be subject to change from time to time due to the following: (i) action by the United States Postal Service that modifies, adds or deletes zip codes, or (ii) changes that may result from natural or man-made conditions. Freddie Mac will incorporate any changes in its RMS Earthquake Insurance Requirements.

(b) Purpose of Requirements; Disclosure to Borrowers

The requirements of this section are for the protection of Freddie Mac's interest in any Condominium Unit Mortgage, to the extent that its interest is secured by a Condominium Unit and a Condominium Project. If, as a result of the application of these requirements, it is determined that earthquake insurance is not required by Freddie Mac (with respect to any Condominium Project or Condominium Unit) for the protection of Freddie Mac's interest in a Condominium Unit Mortgage, Freddie Mac will bear any loss relating to its interest in such Mortgage which may result from that determination.

A determination that earthquake insurance is not required under the provisions of Section 58.3.1(a) or 58.3.1(h), or because the Condominium Project is located in a "low-risk" zip code, may not be relied upon by any Seller/Service, condominium owners association or Borrower in assessing whether or not they should obtain earthquake insurance to protect their respective interests. In addition, by virtue of the determinations which result from the application of these requirements, neither Freddie Mac nor RMS will be deemed to have made any representation or warranty,

express or implied, to any Seller/Servicer, condominium owners association or Borrower concerning the necessity or desirability of their obtaining earthquake insurance to protect their interests, and neither Freddie Mac nor RMS assumes any responsibility for the decisions concerning earthquake insurance made by such persons. Any Seller/Servicer, condominium owners association or Borrower that incurs any loss as a consequence of their decision(s) not to obtain earthquake insurance shall bear such loss in accordance with their interests.

(c) Seller/Servicer Warranties

A Seller/Servicer warrants it has processes in place and has given necessary notice to all applicable parties (including, but not limited to, insurers and condominium owners associations) to ensure that, after the Freddie Mac Funding Date, the Servicer has timely knowledge of any substantive lapse in compliance with any of the requirements of Section 58.3.1. The Servicer must maintain evidence of earthquake insurance coverage that meets the requirements in Sections 58.6 and 58.7.

If the required earthquake insurance is no longer in force, or the Loss Payable Provisions endorsement required in Section 58.6 is not in place by the prescribed deadline, the Servicer must contact the condominium owners association to:

- Determine the reasons for the lapse in coverage or lack of the Loss Payable Provisions endorsement and whether and when coverage will be reinstated or the endorsement obtained
- Advise the condominium owners association that the lack of earthquake insurance coverage or the Loss Payable Provisions endorsement will make future Condominium Unit Mortgages in the Condominium Project ineligible for sale to Freddie Mac

If coverage will not be reinstated or the Loss Payable Provisions endorsement not received within sixty (60) days after the lapse in coverage or lack of endorsement, the Servicer must:

- Advise its loan origination staff, if any, that future Condominium Unit Mortgages in the Condominium Project are not eligible for sale to Freddie Mac
- Notify Freddie Mac (**see Directory 5**) via Form 105, Multipurpose Loan Transmittal, of the lapse in coverage or lack of the Loss Payable Provisions endorsement

(d) Scope and Limit of Insurance: Condominium Projects (excluding Detached Condominium Projects)

The condominium owners association must maintain earthquake insurance coverage for the following:

- Buildings and structures in the Condominium Project

- Fixtures, machinery, equipment and supplies maintained for the service of the Condominium Project
- Fixtures, improvements, alterations and equipment within the individual Condominium Units, regardless of ownership, unless the Condominium Unit owners are required by the governing documents to insure these items

Coverage must be for 100 percent of the replacement cost of the buildings, structures or property described above and provide for loss or damage settlement at replacement cost.

(e) Scope and Limit of Insurance: Detached Condominium Projects

The earthquake insurance coverage specified in Section 58.3.1(d) must be maintained if the governing documents of a Detached Condominium Project require that the condominium owners association maintain blanket insurance for common elements and all Condominium Units.

If the governing documents obligate Condominium Unit owners to provide for individual dwelling or building coverage on their respective Condominium Units, earthquake insurance must be maintained as follows:

- The condominium owners association must maintain earthquake insurance for 100 percent of the replacement cost of the covered items specified in Section 58.3.1(d), except as insured under the Condominium Unit owners' individual dwelling or building coverages.
- Each Condominium Unit that secures a Mortgage originated for sale to Freddie Mac must be covered by the following earthquake insurance:
 - ☐ Dwelling or building coverage limit equal to 100 percent of the Condominium Unit's replacement cost
 - ☐ Loss assessment coverage limit at least equal to the lesser of the Condominium Unit's prorated share of the condominium owners association's earthquake insurance deductible or the maximum loss assessment coverage limit available from the Condominium Unit owner's insurer

(f) Insurance Deductibles

The amount of the deductible for the condominium owners association's earthquake insurance coverage may be established by mutual agreement between the association and its insurer, provided such deductible is prefunded by one of the following methods:

- Reserves of the condominium owners association which are (i) maintained in the amount of the deductible, (ii) designated for such exclusive use and (iii) replenished to the deductible amount within six months of disbursement for a covered loss
- Condominium Unit owner's earthquake insurance maintained on all Condominium Units in the Condominium Project, each Condominium Unit being

insured (a) for dwelling or building coverage, in a limit at least equal to the Condominium Unit's prorated share of the condominium owners association's earthquake insurance deductible, and (b) for loss assessment coverage, in a limit at least equal to the lesser of the Condominium Unit's prorated share of the association's earthquake insurance deductible or the maximum loss assessment coverage limit available from the Condominium Unit owner's insurer

- Any method that fully prefunds the amount of the deductible and is demonstrated in the condominium owners association's governing documents and budget

(g) Additional Coverage

The condominium owners association must obtain ordinance or law coverage for building losses covered by its earthquake insurance.

(h) Site-Specific Waivers

A Seller may waive the earthquake insurance requirement for a Condominium Project located in a "high-risk" or "moderate-risk" zip code. For this requirement to be waived, the Seller must obtain from the condominium owners association a copy of a Site-Specific Earthquake Risk Analysis (SSERA). This SSERA states that the Condominium Project is not required to have earthquake insurance for Condominium Unit Mortgages in the project to be eligible for sale to Freddie Mac. Condominium owners associations can obtain an SSERA from RMS (for a fee payable to RMS) by facsimile transmission (fax) or by overnight mail. To request an SSERA, a condominium owners association must contact RMS at the following address:

Risk Management Solutions, Inc.
(Attn: Michael Brill)
433 Hackensack Avenue, 5th Floor
Hackensack, NJ 07601

Fax number: (201) 498-8601
Phone number: (201) 498-8612

Freddie Mac will not be liable for any losses incurred by a Seller/Servicer if the earthquake insurance requirement is waived. The Seller/Servicer must retain a copy of the SSERA in the Mortgage file, as applicable.

(i) Acceptable Insurance Alternatives

The following Condominium Unit earthquake coverages are acceptable alternatives to the Condominium Project coverages required in Sections 58.3.1(d) through 58.3.1(g):

In a Condominium Project where the condominium owners association maintains earthquake insurance in accordance with Sections 58.3.1(d), 58.3.1(e) and 58.3.1(g) (but not Section 58.3.1(f)) with a deductible not exceeding 25 percent of the

applicable amount of coverage, the Condominium Unit must have Condominium Unit earthquake insurance under a policy that provides at least the following benefits:

- The policy provides earthquake loss assessment coverage with a minimum limit of \$50,000, regardless of the Condominium Unit's replacement cost, and a maximum deductible of \$7,500.
- If the condominium owners association rebuilds the Condominium Project in whole or in part after an insured loss and special assessments are made on Condominium Unit owners to fund such rebuilding, payment of any loss assessment claim under the policy (less the applicable deductible) must be made jointly to the Borrower and the Servicer.
- If the condominium owners association does not rebuild the Condominium Project in whole or in part after an insured loss, whether by decision or by default, payment of the unpaid principal balance of the Mortgage (up to the policy limit less the applicable deductible) will be made solely to the Servicer.

In a Condominium Project where the condominium owners association does not maintain earthquake insurance; or maintains earthquake insurance that does not meet the requirements of Sections 58.3.1(d), 58.3.1(e) and 58.3.1(g); or maintains earthquake insurance with a deductible that exceeds 25 percent of the applicable amount of coverage, the Condominium Unit must have Condominium Unit earthquake insurance coverage under a policy that provides at least the following benefits:

- The policy limit must equal the Condominium Unit's replacement cost or \$250,000, whichever is less.
- The policy must provide earthquake loss assessment coverage with a limit equal to the policy limit and a maximum deductible of 10 percent of the loss assessment limit.
- If the condominium owners association rebuilds the Condominium Project in whole or in part after an insured loss and special assessments are made on Condominium Unit owners to fund such rebuilding, payment of any loss assessment claim under the policy (less the applicable deductible) must be made jointly to the Borrower and the Servicer. If the policy has a combined single limit of insurance, such payment must be made before payment for other losses claimable under the policy.
- If the condominium owners association rebuilds the Condominium Project in whole or in part after an insured loss, payment of any building/dwelling claim under the policy (less a maximum deductible of 10 percent of the building/dwelling limit) must be made jointly to the Borrower and the Servicer. If the policy has a combined single limit of insurance, such payment must be made after payment of loss assessment claims but before payment for other losses claimable under the policy.
- If the condominium owners association does not rebuild the Condominium Project in whole or in part after an insured loss, whether by decision or by default, payment of the unpaid principal balance of the Mortgage (up to the

policy limit less a maximum deductible of 10 percent of the policy limit) must be made solely to the Servicer and before payment for other losses claimable under the policy.

58.3.2: Rent loss insurance (10/06/06)

Rent loss insurance with coverage equal to at least six months of gross monthly rent must be obtained and maintained on each 1- to 4-unit property securing a Mortgage described in Section 22.19 as requiring such insurance.

Rent loss insurance may be designated as "fair rental value" or "fair rental income" under the general heading of "loss of use" or "loss of rents" in property insurance policies which carry diverse labels including but, not limited to, "homeowners policy," "rental dwelling policy," "apartment policy," "landlord protector policy" or "special form," depending upon the company offering the insurance product and/or the jurisdiction in which the product is offered.

Generally, rent loss insurance pays the insured homeowner ("policyholder"):

- For rental income lost due to the insured property being rendered unrentable by direct physical loss caused by a peril such as fire, lightning, windstorm, hail, etc., for which Freddie Mac requires insurance and the property was covered by such insurance and
- Only for such time needed to repair or replace the property or 12 months, whichever is shorter

There may, however, be insurance policies under which the insurer's payment of lost rents to the policyholder does not have a specific time limit as described above. Instead, such policies may have a time limit generally described as "the shortest time required to repair or replace the property" combined with a standard monetary limit of 10 to 30 percent of the insurance maintained for direct physical loss to the "dwelling" on the insured property.

Generally, there is no additional charge to the policyholder for rent loss insurance that is provided as standard coverage under standard terms of a property insurance policy. Policies that contain a standard monetary limit may provide for such limit to be optionally increased at an additional charge to the policyholder. If the standard monetary limit for rent loss insurance applicable to the Mortgaged Premises is less than six months of gross rent for the Mortgaged Premises, the Borrower must pay to have the monetary limit for rent loss insurance increased to equal at least six months of gross rent for the Mortgaged Premises.

58.4: Liability insurance for PUDs and condominiums (10/06/06)

The PUD or condominium owners association or the fee simple landowner/lessor of the ground lease community must maintain commercial general liability (CGL) insurance covering all common areas, common elements, commercial spaces and public ways in the PUD, condominium or ground lease community.

If not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association, the fee simple landowner/lessor or other unit owners.

The association must also maintain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:

1. Comprehensive automobile liability
2. Bailee's liability
3. Elevator collision liability
4. Garage keeper's liability
5. Host liquor liability
6. Workers' compensation and employer's liability
7. Contractual liability

The insurer's limit of liability per occurrence for personal injury, bodily injury or property damage under the terms of the above coverages must be at least \$1 million and the coverage must provide for claim settlements on an occurrence basis.

58.5: Fidelity or employee dishonesty insurance for condominiums (03/01/08)

Freddie Mac requires all condominium homeowners associations in Condominium Projects that consist of more than 20 units to obtain and maintain fidelity or employee dishonesty insurance that meets the terms and conditions of coverage detailed in this section. If a Condominium Project is located in a State that requires condominium homeowners associations to obtain and maintain fidelity or employee dishonesty insurance on terms or conditions different from Freddie Mac's, Freddie Mac will deem compliance with the State's requirements to be compliance with Freddie Mac's requirements.

The condominium homeowners association must maintain fidelity or employee dishonesty insurance covering losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees or volunteers who manage the funds collected and held for the benefit of the Condominium Unit owners. A professional management firm must be insured to the same extent as an association that manages its own operation. The management firm must submit evidence of such coverage to the association.

Fidelity or employee dishonesty insurance coverage must have all of the following characteristics:

- The policy must name the condominium homeowners association as the insured, and premiums must be paid as a common expense by the association.
- The coverage must equal no less than the maximum amount of funds in the custody of the condominium owners association or its management firm at any one time. A lower coverage limit is acceptable if the condominium's Project Documents require the homeowners association and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of three months of assessments on all units in the Condominium Project.

Freddie Mac will accept reduced fidelity or employee dishonesty insurance coverage based on greater financial controls if such controls include at least one of the following provisions:

- The condominium homeowners association or its management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association.
- Separate records and accounts are maintained for each condominium homeowners association or other community association using the management firm's services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium owners association.
- Two or more members of the board of directors must sign any checks drawn on the reserve fund.

58.6: Mortgage clause (05/25/11)

All policies documenting insurance coverage(s) obtained in accordance with Freddie Mac's requirements for 1- to 4-unit properties must have the insurance industry's standard mortgage clause. Such clause must provide that the insurer will notify the named mortgagee at least 10 days before cancellation of the policy.

If the Mortgage is owned in whole by Freddie Mac, "(name of Seller/Servicer), its successors and assigns" should be named as mortgagee instead of Federal Home Loan Mortgage Corporation. In deed-of-trust jurisdictions, the mortgagee should be designated as "(name of Seller/Servicer), its successors and assigns, beneficiary."

If the Federal Home Loan Mortgage Corporation must be named as mortgagee, the endorsement must show the Seller/Servicer's address in lieu of Freddie Mac's, as shown in the example below:

FEDERAL HOME LOAN MORTGAGE CORPORATION
C/O ABC SAVINGS AND LOAN ASSOCIATION
100 MAIN STREET
HOMETOWN USA 12345

If the Mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, under no circumstances may MERS be named as loss payee on any property insurance policy.

Regardless of how the mortgage clause is endorsed, or if the Mortgage is registered with MERS, the Seller/Servicer must arrange for all insurance drafts, notices, policies, invoices, etc. to be delivered directly to the Seller/Servicer. Although the MERS address appears in county land records, the address for MERS must not be given to organizations that normally direct mail to the Seller/Servicer or subservicer.

If a California Condominium Unit Mortgage has a Note dated on or after May 1, 1996, and the existence of Condominium Project earthquake insurance was the basis for a Freddie Mac waiver or reduction of the delivery fee required in Section 42.12, the Condominium Project earthquake insurance policy must be endorsed with a Loss Payable Provisions endorsement in the form of Insurance Services Office Form CP 12 18 10 91, or its equivalent, naming the Servicer as loss payee in the Lender's Loss Payable provisions.

When a mortgage clause is not applicable (e.g., in a separate policy of commercial general liability), a certificate of insurance must be provided to the Seller/Servicer. This certificate must contain the information required for certificates or other evidence of insurance in Section 58.7, with the Seller/Servicer named as certificate holder instead of mortgagee.

58.7: Evidence of insurance (05/17/11)

For each property securing a Mortgage owned by Freddie Mac, the Servicer must maintain evidence of all required insurance coverages in one of the following forms:

- An original policy (including the PUD or condominium owners association or fee simple landowner/lessor's policy under which the required coverages may be provided in whole or in part) and applicable endorsements
- A copy of the original policy and applicable endorsements if the copy meets the requirements of Chapter 52
- A certificate, evidence or declarations of insurance showing at least the following information:
 1. Name insured and mortgagee (where applicable, PUD or condominium owners association or fee simple landowner/lessor and PUD or Condominium Unit or ground lease community mortgagee for all units in which the mortgagee has an insurable interest)

2. Property address
3. Type, amount and effective dates of coverage
4. Deductible amount and coverage to which each such deductible applies
5. Any endorsement or optional coverage obtained and made part of the original policy
6. Insurer's agreement to provide at least 10 days' notice to the mortgagee (including any applicable PUD or Condominium Unit or ground lease community leasehold mortgagee) before cancellation of the policy
7. Signature of an authorized representative of the insurer, if required by law

The Servicer must maintain a specimen of each policy and endorsement for which a certificate, evidence or declarations of insurance is maintained in lieu of the policy and endorsement.

If the Servicer documents and tracks the blanket insurance policy maintained by a condominium owners association and can cross-reference to such policy each Condominium Unit Mortgage the Servicer services for Freddie Mac in the Condominium Project which is covered by such policy, the Servicer need not maintain and track a separate insurance certificate for each such Condominium Unit Mortgage.

The Servicer must carry mortgage impairment or mortgagee interest insurance if it elects not to maintain the documentation described above. The mortgage impairment or mortgagee interest policy must meet the following requirements:

1. Be underwritten by an insurer which is currently rated B/IV or better by A.M. Best and is licensed or otherwise authorized by law to conduct business in the jurisdictions where the properties are located
2. Provide coverage for the Servicer and/or Freddie Mac
3. Provide coverage in scope and amounts at least equal to those required under Sections 4.5 through 4.6
4. Provide for at least 180 days' written notice to the Servicer and, if applicable, Freddie Mac before canceling or terminating the coverage
5. Be approved by any regulatory authority to which the Servicer is subject, if such approval is required

Having a mortgage impairment or mortgagee interest policy does not relieve the Servicer of any of its Servicing obligations under the Purchase Documents, including the obligations to demonstrate to Freddie Mac that all the insurance coverages required in this Chapter 58 on a property securing a Mortgage serviced for Freddie Mac are indeed in force and to take all remedial actions required in this Chapter 58 when any such coverage is not in force.

In addition to all other remedies of Freddie Mac provided for in the Purchase Documents, the Servicer will indemnify Freddie Mac for any loss Freddie Mac sustains due to the Servicer's failure to verify that the required insurance is in force on the Mortgaged

Premises. The Servicer's obligation shall in no way be limited to the amount of coverage in force under a mortgage impairment or mortgage interest policy.

58.8: Insurance charges (04/01/98)

Premiums for insurance covering the Mortgaged Premises will be paid when due by Borrowers or the Servicer if the Servicer collects Escrows for such purposes.

Premiums for insurance obtained by a PUD or condominium owners association for the benefit of the PUD or Condominium Project will be paid by the association as a common expense assessable to all unit owners.

58.9: Special insurance requirements and changes in insurance requirements (06/22/07)

The Seller/Servicer must require the Borrower to obtain appropriate insurance coverage in accordance with the terms of the Security Instrument and applicable law when any of the following conditions exists:

- The Seller/Servicer becomes aware of localized perils (for example, flood, sinkhole, mine subsidence, volcanic eruption, avalanche) that are not covered by standard property insurance.
- The area where the Mortgaged Premises are located was not subject to flood insurance requirements at inception of the Mortgage or when Freddie Mac purchased the Mortgage, but has now been classified as a "Special Flood Hazard Area" (SFHA) by a Federal Emergency Management Agency (FEMA) map change, the Servicer is aware of such classification and the Servicer has determined that the insurable improvements on the Mortgaged Premises are in the new SFHA. Flood insurance required under these provisions must be in force within 120 days of the effective date of the map change or the related Freddie Mac announcement.

The Servicer must have processes in place that allow the Servicer to identify any map change that becomes effective on or after April 1, 1995, determine which insurable improvements on Mortgaged Premises in the community affected by the map change are now "in SFHA" and ensure that affected Borrowers obtain flood insurance within 120 days of the effective date of the map change.

Any new flood zone determination (FZD) necessitated by the above provisions must be documented as required in Section 58.3. The Servicer warrants that any FZD made on or after June 1, 1995, by a party other than the Servicer is guaranteed by the FZD maker to be accurate, in accordance with federal law. The Servicer, however, remains responsible to Freddie Mac for the accuracy of any FZD made by the Servicer or a party other than the Servicer.

- The area where the Mortgaged Premises are located is an SFHA but the community has become a nonparticipating community and flood insurance provided by the NFIP will not be renewed.
- The Borrower does not maintain any of the insurance coverages required of the Borrower in Sections 58.2 through 58.3.2.

The Servicer must follow up to verify that adequate coverage has been obtained and remains in force. If the Borrower does not or cannot obtain such coverage, the Servicer must do so. The Servicer must then adjust the Borrower's Escrow payments accordingly or bill the Borrower to recover the advance if the Servicer does not maintain an Escrow account for the Borrower. If the Borrower refuses to reimburse the Servicer, the Servicer may recommend acceleration to Freddie Mac for the Borrower's default under the terms of the Security Instrument.

If the additional coverage cannot be obtained, the Servicer must immediately make appropriate recommendations to Freddie Mac (**see Directory 5**).

The Servicer may authorize the Borrower to discontinue flood insurance coverage upon verification of map revision or receipt of one of the following letters:

- A LOMA issued to the Borrower by FEMA, or
- A LOMR issued to the Borrower's community by FEMA, or
- A LODR issued to the Borrower and the Servicer by FEMA

58.10: Insurance loss settlements (08/21/06)

Upon notification of loss or damage to the Mortgaged Premises, the Servicer must monitor and coordinate the claim process with the Borrower and the insurer. The Servicer must take appropriate action to:

- Verify the extent of the loss or damage
- Ensure judicious disbursement of insurance proceeds for the necessary repairs
- Protect the priority of the Mortgage by obtaining, where necessary, waivers of materialman's or mechanic's liens
- Document completion of the repairs

Refer to Section 67.27, Servicing Mortgages on distressed properties, for additional requirements.

The Servicer may be named as loss payee on insurance drafts and must comply with any applicable law and, where applicable, any requirement of the FHA, VA, RHS or MI. Details concerning the loss or damage and disposition of the insurance proceeds must be recorded in the Mortgage file.

The Servicer need not submit a report and related recommendations to Freddie Mac unless:

- The Mortgage is in foreclosure or the Mortgaged Premises have been acquired by the Servicer through foreclosure or deed-in-lieu of foreclosure (See Section 70.16(b) for remittance requirements for insurance loss settlements.)
- The insured improvements have suffered a total or near total loss
- The Servicer wishes to apply insurance proceeds to the Mortgage debt instead of repairing the property, or
- Insurance proceeds exceed the amounts required to restore the property to its original condition

If any of the above conditions exist, the Servicer must submit the recommendation along with the appropriate documentation to us (**see Directory 5**) via Form 105, within five Business Days of learning of the situation.

Following is guidance to assist the Servicer in satisfying the requirements of this section.

(a) Property insurance claims

Property insurance that Freddie Mac requires the Borrowers to maintain should provide sufficient recoveries for losses or damages to the Mortgaged Premises:

- **Loss-of-use or additional living expense clause:** Homeowner insurance policies generally have a loss-of-use or additional living expense clause. This clause covers increases in living expenses necessary for an insured household to:
 - ☐ Maintain its normal living standards away from a residence that is being repaired or reconstructed
 - ☐ Permanently resettle elsewhere
- **Claim proceeds:** Insurers generally issue drafts directly to the insured Borrower in payment for losses to contents (as opposed to structural losses) or for off-residence living expenses. If any such payment is made jointly to the Borrower and the Servicer, the Servicer must release the insurance funds to the Borrower without delay.

When an insurance draft for structural losses is payable jointly to the insured Borrower and the Servicer, the Servicer may immediately release insurance funds to Borrowers who legitimately need to advance funds to contractors, provided all of the following conditions are met:

- The Mortgage is current.
- The Borrower's payment history does not show delinquencies of two payments or more.
- The released funds do not exceed the highest of:
 - ☐ \$10,000.00
 - ☐ 10% of the unpaid principal balance (UPB) of the affected Mortgage
 - ☐ The amount by which the released funds exceed the UPB of the Mortgage

When the amount of insurance funds released equals or exceeds \$10,000, the Servicer must have the Borrower execute an affidavit in which the Borrower expressly agrees to apply the released funds promptly to repair or reconstruct the residence.

A Servicer may unilaterally apply the insurance proceeds to the Mortgage's unpaid balance only to the extent allowed by applicable law and the Security Instrument. The Borrower, however, may unilaterally decide to have the proceeds applied to the Mortgage's unpaid balance.

If repair or reconstruction of the residence is expected to take more than three months, insurance funds retained by the Servicer pending disbursement for such repair or reconstruction must be maintained in a federally insured account that pays interest to the Borrower.

(b) Repair or reconstruction of the Mortgaged Premises

In overseeing the repair or reconstruction of damaged or destroyed residences, the Servicer should, to the extent applicable and practicable, ascertain that:

- The contractor chosen by the Borrower to repair or reconstruct the residence is:
 - Duly licensed under applicable laws and regulations
 - Qualified and experienced to perform the types of work contracted
 - Financially able to complete the repair or reconstruction within scheduled timeframes
- The plans and specifications for the work contracted:
 - Describe repair or reconstruction that is generally consistent with the damage or destruction suffered by the residence, as reported in the proof of loss filed by the Borrower with the property insurer and as documented by the insurer's adjuster
 - Establish a reasonable schedule for completion of each phase of repair or reconstruction
- The Borrower and the contractor have executed a contract by which they agree to the following:
 - The contractor will perform the work described in the plans and specifications.
 - The contractor will comply with applicable codes and regulations governing residential repair or reconstruction (including, but not limited to, building codes and zoning, permit and inspection regulations):
 - These codes and regulations may vary from State to State and, within the same State, from county to county. Therefore, Servicers should have adequate measures in place to verify contractors' and inspectors'

compliance certifications to protect Freddie Mac's and the Servicer's respective investments.

If additional funds are needed to bring a damaged or destroyed residence into compliance with applicable codes and regulations, the Borrowers should determine whether their property insurer will waive any policy provision restricting payment for the increased cost of construction resulting from enforcement of codes and regulations.

- ☐ A specified dollar amount is the maximum amount that the contractor may charge for the work.
 - ☐ The contractor will be paid a specified advance (if applicable, usually not exceeding 10 percent of the total contract amount) and, subsequently, on a specified draw schedule contingent on verification of satisfactory completion of specified work phases.
 - ☐ The contractor, its subcontractors and its material suppliers will provide written acknowledgment of payment for work performed and materials supplied and the necessary lien waivers or releases so that the Mortgaged Premises may remain clear of all such liens and encumbrances.
- Each scheduled work phase has been satisfactorily completed in accordance with the plans and specifications before disbursement of payment for such phase is made in accordance with the contract

The Servicer may choose to have the above described oversight functions performed by its staff or by a third party (such as a specialized firm or another Servicer). However, the Servicer is liable for the performance of any third party it retains. The third party may be compensated from insurance proceeds retained by the Servicer only to the extent agreed to by the Borrower and allowed under applicable law.

58.11: Disaster losses (08/21/06)

This section has been moved to Chapter 68.